DJC

THE DAILY JOURNAL OF COMMERCE, PORTLAND, OREGON

William Rutherford

OP-ED: As stocks close at a record half-year, unease grows

Published July 9, 2021

The U.S. stock market closed out the first half of 2021 at a record. The market showed gains through July 1 for five consecutive quarters, the longest streak since 2017. Business confidence has rebounded. While it seems that stocks can only go up, the outlook is increasingly hazy.

Fears of inflation cloud the outlook. The Federal Reserve chairman says the inflation threat is transitory, the result of distribution bottlenecks from the resurgence of the economy. Investors are not so sure if the rate of inflation is transitory or more permanent.

Savvy investors are looking for sustainable earnings. Who will be the long-term winners?

The trajectories of value and growth stocks have disconnected. In a bull market, both categories would be moving up. Value stocks have been outperforming growth, indicating that investors are uncertain about market direction.

While corporate earnings have been stellar, many investors believe that the economy's rebound has been priced in and that stocks, trading at high multiples, are priced to perfection. Stocks are now in the second year of a bull market and can be expected to be choppy and make more muted gains.

Interest rates have risen, as might be expected in inflationary times. The yield on the benchmark 10-year Treasury had been edging up, but then in July fell to its lowest level since February, and may go even lower. Still, rising interest rates could test the downward trend. Rising rates would favor utilities and financials.

The U.S dollar is strengthening, which makes U.S. goods more expensive in international markets and results in difficulties for emerging market countries to repay their U.S. dollar denominated debt.

The Federal Reserve now predicts 2021 U.S. economic growth of over 5 percent, while the International Monetary Fund (IMF) last week raised its expected U.S. GDP growth to 7 percent. The IMF's optimistic outlook is based on the assumption that much of President Biden's infrastructure and social spending plans will be enacted. IMF Managing Director Kristalina

Georgieva said the two packages would implement many recommendations that the IMF has made for the United States for years, including investments to boost productivity, education and to allow more women to join the American workforce.

“They will add to near-term demand, raising GDP by a cumulative 5.25 percent over 2022 to 2024,” Georgieva said at a news conference, adding that they will also produce a lasting improvement in income and living standards, with a 1 percent increase in GDP output even after 10 years.

In June, nonfarm payrolls increased by 850,000 against a consensus of 680,000. The 3-month average for total nonfarm payrolls increased to 567,000 from 546,000 in May.

The June unemployment rate was 5.9 percent versus a consensus of 5.7 percent, and versus 5.8 percent in May. Persons unemployed for 27 weeks or more accounted for 42.1 percent of the unemployed versus 40.9 percent in May.

Employers, particularly in the service and hospitality sectors, continue to report the inability to fill positions. Many are offering lucrative signing bonuses and are still unable to hire. If state and federal payments to unemployed begin to phase out over the summer months as expected, the hiring picture may improve for these sectors. However, if service companies must pay higher wages to attract and maintain staff, expect that higher prices to the consumer will follow.

The economic recovery is still fragile enough that the Federal Reserve should not be called upon to make shifts in policy.

Similarly, we recommend long-term investors not sway from maintaining a fully invested, well-diversified portfolio.

William Rutherford is the founder and portfolio manager of Portland-based Rutherford Investment Management. Contact him at 888-755-6546 or wrutherford@rutherfordinvestment.com. Information herein is from sources believed to be reliable, but accuracy and completeness cannot be guaranteed. Investment involves risk and may result in losses.

The opinions, beliefs and viewpoints expressed in the preceding commentary are those of the author and do not necessarily reflect the opinions, beliefs and viewpoints of the Daily Journal of Commerce or its editors. Neither the author nor the DJC guarantees the accuracy or completeness of any information published herein.